

**REPORT OF THE AUDIT OF THE
FLEMING COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FLEMING COUNTY CLERK

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Fleming County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$11,167 from the prior year, resulting in excess fees of \$135,621 as of December 31, 2008. Revenues increased by \$230,996 from the prior year and expenditures increased by \$242,163.

Report Comments:

- The County Clerk Should Present An Annual Financial Statement To Fiscal Court
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Jarrod Fritz, Fleming County Clerk
Members of the Fleming County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Fleming County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2009 on our consideration of the Fleming County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Jarrod Fritz, Fleming County Clerk
Members of the Fleming County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Present An Annual Financial Statement To Fiscal Court
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Fleming County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

August 14, 2009

FLEMING COUNTY
JARROD FRITZ, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Grant	\$	41,414	
State Fees For Services			4,535
HB 537 - Revenue Supplement			60,610
Fiscal Court			3,216
 Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	495,185	
Usage Tax		1,012,484	
Tangible Personal Property Tax		1,186,165	
Other-			
Fish and Game Licenses		8,331	
Marriage Licenses		4,735	
Affordable Housing Trust		14,288	
Deed Transfer Tax		26,552	
Delinquent Tax		135,114	2,882,854
 Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		9,432	
Real Estate Mortgages		21,730	
Chattel Mortgages and Financing Statements		42,949	
Powers of Attorney		664	
All Other Recordings		18,543	
Charges for Other Services-			
Candidate Filing Fees		70	
Voter Registration Fees		4,535	
Notary Fees		27	
Copywork		5,208	103,158
 Other:			
Refunds		77,073	
Postage		1,238	
Miscellaneous		3,281	81,592
Interest Earned			2,762
Total Revenues			3,180,141

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
 JARROD FRITZ, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	336,301	
Usage Tax		982,083	
Tangible Personal Property Tax		402,477	

Licenses, Taxes, and Fees-

Fish and Game Licenses		5,066	
Delinquent Tax		24,224	
Legal Process Tax		15,917	
Affordable Housing Trust		14,292	\$ 1,780,360

Payments to Fiscal Court:

Tangible Personal Property Tax		131,356	
Delinquent Tax		21,078	
Deed Transfer Tax		25,282	177,716

Payments to Other Districts:

Tangible Personal Property Tax		605,076	
Delinquent Tax		57,477	662,553

Payments to Sheriff

1,361

Payments to County Attorney

20,378

Operating Expenditures:

Personnel Services-

Deputies' Salaries		151,142	
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Contracted Services-

Fish and Game		3,067	
Advertising		2,395	
Printing and Binding		44,474	

Materials and Supplies-

Office Supplies		12,295	
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Other Charges-

Preparing Tax Bills		2,447	
Conventions and Travel		1,657	
Dues		500	
Postage		4,119	
Phone and Internet		5,804	
Maintenance and Repairs		8,327	
Software Purchase		1,818	
Refunds		81,273	319,318

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
 JARROD FRITZ, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Debt Service:

Lease Purchases	<u>\$ 6,976</u>	
Total Expenditures		<u>\$ 2,968,662</u>
Net Revenues		211,479
Less: Statutory Maximum		<u>70,496</u>
Excess Fees		140,983
Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>1,762</u>	<u>5,362</u>
Excess Fees Due County for 2008		135,621
Payments to Fiscal Court - October 7, 2008	100,000	
April 1, 2009	20,000	
August 13, 2009	<u>15,621</u>	<u>135,621</u>
Balance Due Fiscal Court		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Fleming County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Fleming County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

FLEMING COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Grant

The Fleming County Clerk received a local records grant from the Kentucky Department for Libraries and Archives in the amount of \$41,414 on July 2, 2007 for microfilming. The grant was to be completed by December 31, 2008. During October 2008, all funds were expended on the grant, leaving the balance at \$0 as of December 31, 2008.

Note 5. Leases

- A. On December 4, 2007, the Fleming County Clerk's office entered into a rental agreement with Software Management, Inc. for software licensing and maintenance. The agreement requires 60 monthly payments of \$250 to be completed in November 2012 and is annually renewable thereafter. As of December 31, 2008, the total amount outstanding was \$12,000. On March 18, 2008, an addendum was added to the agreement for additional software licensing and maintenance. This agreement requires an annual payment of \$2,700 and will also be completed in November 2012 and is annually renewable thereafter.
- B. On December 19, 2007, the Fleming County Clerk's office entered into a rental agreement with Software Management, Inc. for hardware maintenance on CCLIX Server public access workstation and system printer equipment. The agreement requires monthly payments of \$177, which the County Clerk pays once annually. As of December 31, 2008, the total amount outstanding was \$8,496.
- C. The Fleming County Clerk's office is committed to two lease agreements with Xerox for copiers. The agreements required monthly payments of \$264 for each copier for 60 months to be completed March 2012. The County Clerk's office is in compliance with the terms of the agreements as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Foxworthy, Fleming County Judge/Executive
The Honorable Jarrod Fritz, Fleming County Clerk
Members of the Fleming County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Fleming County Clerk for the year ended December 31, 2008, and have issued our report thereon dated August 14, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fleming County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fleming County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Present An Annual Financial Statement To Fiscal Court

The Fleming County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fleming County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 14, 2009

COMMENTS AND RECOMMENDATIONS

FLEMING COUNTY
JARROD FRITZ, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The County Clerk Should Present An Annual Financial Statement To Fiscal Court

The County Clerk did not present his financial statement to fiscal court. KRS 64.152(1) states, “the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.” We recommend the County Clerk comply with KRS 64.152(1) by submitting his financial statement to fiscal court by March 15 of each year.

County Clerk’s Response: Will be presented in future.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The County Clerk’s Office Lacks Adequate Segregation Of Duties

The County Clerk’s office has a lack of adequate segregation of duties. The County Clerk prepares bank reconciliations and also writes checks and posts them to the disbursements ledger. Good internal controls dictate that the recording of transactions and bank reconciling duties be segregated. Inadequate segregation of duties between reconciling accounts and recording transactions may increase the likelihood that errors may occur and not be detected in a timely manner. Implementing the following procedures could compensate for this deficiency:

- The County Clerk should have someone independent review the bank reconciliations for accuracy and document accordingly on the bank reconciliations
- The County Clerk should require dual signatures on checks, with one being the official

County Clerk’s Response: I will have an outside auditor review bank rec’s.

